

## Message Text

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16

ACTION XMB-04

INFO OCT-01 EUR-12 ISO-00 L-03 TRSE-00 EB-07 COME-00

CIAE-00 INR-07 NSAE-00 OPIC-03 CIEP-01 OMB-01 SS-15

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FM AMEMBASSY BELGRADE

TO SECSTATE WASHDC PRIORITY 4779

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E.O. 11652: NA

TAGS: EFIN BEXP YO

SUBJ: YUGOSLAV ENTERPRISE CLAIMS EXIMBANK TERMS UNACCEPTABLY HIGH

SUMMARY: EMBASSY WOULD APPRECIATE EXIMBANK REVIEWING  
TERMS OF PRELIMINARY COMMITMENT WHICH YUGOSLAV  
ENTERPRISE FINDS UNACCEPTABLY HIGH IN COMPARISON TO FRENCH FINANCING  
FOR GALVANIZING MILL. REPLY NEEDED BEFORE NOV 24. END SUMMARY.

1. AETNA STANDARD IN COOPERATION WITH WESTINGHOUSE AND US STEEL  
AND WITH EXIMBANK SUPPORT (PRELIMINARY COMMITMENT #75-0-3430)  
IS OFFERING GALVANIZING LINE TO RMHK "TREPICA" FOR VUCITRN  
SHEET PLANT. SOLE COMPETITOR REMAINING IN TREPICA'S FINANCIAL EVAL-  
UATION OF SEVERAL OFFERS IS FRENCH FIRMS DMS BACKED BY COFACE.  
DMS APPEARS TO ENJOY ADVANTAGE IN PRICE, FINANCING AND PROMISED  
START-UP DATE.

2. WE UNDERSTAND AETNA STANDARD ASKING EXIMBNK WHETHER FINANCING  
TERMS CAN BE IMPROVED. TO FACILITATE EXIMBANK REVIEW OF COMMITMENT,  
WE PROVIDE INFORMATION OBTAINED IN SEPARATE DISCUSSIONS THIS WEEK  
WITH AGENT PROGRESS AND TODAY WITH TREPICA DIRECTORS.

3. TREPICA DIRECTORS EXPRESSED CONFIDENCE IN SUPERIORITY OF US  
EQUIPMENT AND ENGINEERING FOR PROJECT. THE STATED, HOWEVER,  
THAT PRICE AND FINANCING CONSIDERATIONS MAKE US OFFER UNACCEPTABLY  
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HIGH IN COMPARISON TO COFACE SUPPORT FOR 85 PERCENT OF FRENCH

COSTS AT TRUE INTEREST RATE, INCLUDING COMMITMENT AND ADMINISTRATIVE EXPENSES, OF (A) 8 PERCENT ON LOAN EXTENDING 7-1/2 YEARS AFTER START-UP, OF (B) 8.3 PERCENT ON LOAN REPAYABLE 8-1/2 YEARS AFTER START-UP. DIRECTORS ASSERTED THAT THEY HAVE OBTAINED WRITTEN FRENCH ASSURANCES THAT INTEREST RATE CONTAINS "ALL FINANCING EXPENSES" AND DEFINE THIS TO MEAN THAT EXCEPT FOR INTERIM AND REGULAR INTEREST, NO INCIDENTAL EXPENSES EXIST IN FRENCH TERMS. WHEN EMBOFF POINTED OUT THAT INTEREST RATE IS ONLY ONE ELEMENT DETERMINING EXPENSE OF FINANCING PACKAGE, TREPCA EXECUTIVES REPLIED THAT THEIR ENTERPRISE AND BANK HAD MADE DETAILED ANALYSIS COMPARING US AND FRENCH TERMS AND FOUND THAT THE FRENCH CAME OUT MUCH BETTER.

4. TO APPROACH TERMS OF FRENCH OFFER, TREPCA EXECUTIVES STATED, US TERMS SHOULD BE ALTERED AS FOLLOWS:

A. EXIMBANK INTEREST RATE SHOULD BE REDUCED FROM 9.25 TO 8.3 PERCENT.

B. EXIMBANK COMMITMENT SHOULD COVER UP TO 90 PERCENT OF US COSTS AND CONSIST OF 45 PERCENT IN DIRECT CREDIT AND GUARANTEE COVERING EQUAL AMOUNT OF PRIVATE FINANCING. (WHEN EMBOFF REMINDED TREPCA EXECUTIVES THAT COFACE IS ONLY COVERING 85 PERCENT OF FRENCH COSTS, THEY REPLIED THAT ADDITIONAL 5 PERCENT EXIMBANK COMMITMENT IS NEEDED TO COMPENSATE FACT THAT PRIVATE US FINANCING PEGGED TO PRIME RATE WHEREAS FRENCH RATE IS FIXED.)

C. EXTENSION OF GRACE PERIOD TO 6 MONTHS AFTER START-UP OR AT MINIMUM TO 3 YEARS AFTER SIGNING OF AGREEMENT WITH EXIMBANK. (TREPCA DIRECTORS EXPLAINED THAT LEAD TIME TO OBTAIN US EQUIPMENT MEANS THAT START-UP CAN NOT POSSIBLY OCCUR IN LESS THAN 3 YEARS.)

D. REPAYMENT SCHEDULE TO REMAIN AS STATED IN P/C, I.E., FINANCING REPAYABLE IN 20 EQUAL INSTALLMENTS TO EXTEND APPROXIMATELY 12 YEARS WITH GRACE PERIOD AS STATED ABOVE.

5. RESPONDING TO PRESSURE FROM AGENT TO CONFIRM SERIOUSNESS IN US OFFER, TREPCA HAS PROVIDED LETTER OF INTENT TO RECAPITULATE ABOVE CONDITIONS AND ALSO REQUESTING PRICE REDUCTION AND FINANCING OF LOCAL COSTS. ALTHOUGH AGENT MUST DISCUSS PRICE WITH AETNA STANDARD, HE BELIEVES IT CANNOT BE REDUCED TO THE AMOUNT REQUESTED BY TREPCA AND THUS CONSIDERS IT ESSENTIAL TO MAKE BEST POSSIBLE EFFORT ON FINANCING. AGENT HAS ALREADY HAD TO COMMIT ITSELF TO LIMITED OFFICIAL USE

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PURCHASE SOME PRODUCT FROM GALVANIZING MILL TO MATCH ANOTHER GOODIE OFFERED BY FRENCH. (US SUPPLIERS NEED NOT ASSUME ANY PART OF THIS RESPONSIBILITY.)

6. EMBASSY IS UNABLE TO COMPARE FRENCH AND US FINANCING TERMS, BUT WE ARE CONVINCED THAT TREPCA REGARDS EXIMBANK INTEREST RATE AS OBSTACLE TO GIVE CONTRACT TO AETNA STANDARD. NOT ONLY IS TREPCA CONVINCED THAT COST OF US FINANCING SIGNIFICANTLY

HIGHER THAN FRENCH TERMS, BUT TREPCA DIRECTORS FIRMLY BELIEVE THAT INTEREST RATE IS A FACTOR THAT WORKER'S COUNCIL, WHICH MUST APPROVE CONTRACTURAL ARRANGEMENTS, WOULD FOCUS ON AND REFUSE TO AGREE TO. PROJECT MUST BE PRESENTED TO WORKERS' COUNCIL FOR DECISION ON NOV 24.

7. ACTION REQUESTED: EMBASSY WOULD APPRECIATE EXIMBANK REVIEW OF PRELIMINARY COMMITMENT. WE WOULD APPRECIATE EXIMBANK REPLY TO CONVEY TO TREPCA BEFORE NOV 24 MEETING.  
SILBERMAN

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